



**CITY OF HUNTINGTON BEACH
PUBLIC WORKS COMMISSION
REQUEST FOR ACTION**

Item No. PW 10-024

SUBMITTED TO: Chairman Siersema and Members of the Commission

SUBMITTED BY: Travis K. Hopkins, PE, Director of Public Works

DATE: July 21, 2010

SUBJECT: Approve Infrastructure Fund Annual Report
for Fiscal Year 2009/10

Statement of Issue: The City Charter requires an annual review and performance audit of the Infrastructure Fund, and a report of the findings to the City Council. This review covers fiscal year (FY) 2009/10.

Funding Source: Infrastructure Fund No. 314

Recommended Action: Motion to recommend to the City Council the Infrastructure Fund Annual Report

Alternative Action(s): Direct staff to modify the Annual Report.

Analysis: The Infrastructure Fund was established in 2002, by City Charter Section 617. "... (c) The City Council shall by ordinance establish a Citizens Infrastructure Advisory Board to conduct an annual review and performance audit of the Infrastructure Fund and report its findings to the City Council prior to adoption of the following fiscal-year budget."

The single substantial revenue source to the fund was General Fund excess fund balance per the Financial Policy adopted in Fiscal Year 2006/07. The Policy was revised beginning in Fiscal Year 2009/10 to allow for an Economic Uncertainties Reserve commitment. Excerpts addressing the Infrastructure Fund for the previous and current policies are shown in Attachment 2.

Revenue

1. No General Fund excess balance was available at the end of FY 2008/09; therefore no distribution was made to the Infrastructure Fund.

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2. The maintenance agreement for the traffic signal at Beachmont Plaza provides annual revenue approximately \$10,000.
3. Interest is paid in proportion to the citywide investments and fund balance.

Expenditures

1. Budgeted projects include matching funds for three water quality grants.
 - a. Two of the projects, Irby Park and Talbert Lake 2, are determined unviable at this time and appropriated state funding will be surrendered.
 - b. The \$276,200 allocation for Talbert Lake 1 design has been expended.
2. The single completed project is City Yard Slope Repair.
3. Water quality improvements to Greer and Chris Carr Lakes are ongoing and encumbered funds for the monthly treatments will be carried into the next year.
4. Projects that continue into next fiscal year are the acquisition of the Heil Pump Station property, Facilities Energy Efficiency Improvements and the Irrigation Control/Energy Efficiency allocations.
5. No additional projects are proposed for FY 2010/11.

Attachments:

1. Infrastructure Fund Summary Report FY 2009/10
2. Excerpts from Financial Policy adopted FY 2006/07 and 2009/10

ATTACHMENT #1

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INFRASTRUCTURE FUND

Summary Report FY 2009/10

	Budget FY 2009/10	Actuals Through July 15	Encumbrance	Projected Fund Balance 9/30/10
00314 - Infrastructure Fund				
Beginning Fund Balance (10/01/09)	2,737,793			2,737,793
42965 - Pooled Cash Interest	15,000	12,813		15,000
48550 - Miscellaneous--Beachmont Plaza Traffic Signal	10,000	0		10,000
49101 - General Fund Allocation for 9/30/09	0	0		0
Revenues	25,000	12,813		25,000
Capital Expenditures				
Continuing from FY 2008/09				
Irby Park Grant Match	(470,000)	(80,400)		(80,400)
Talbert Lake Phase I Grant Match	(276,200)	(226,957)	(49,243)	(276,200)
Talbert Lake Phase II Grant Match	(100,000)	(1,333)		(1,333)
New appropriations FY 2009/10				
City Yard Slope Repairs	(250,000)	(222,930)		(222,930)
Water quality improvements @ Greer and Carr Lakes	(150,000)	(29,925)	(120,075)	(150,000)
Carryover to FY 2010/11				
Heil Pump Station Property Acquisition	(1,056,000)			(1,056,000)
Energy efficient lighting (combined with EEC grant)	(150,000)			(150,000)
Energy Efficient Irrigation control (combined with water funds)	(150,000)			(150,000)
Total Expenditures	(2,602,200)	(252,855)	(120,075)	(2,086,863)
Fund Balance	160,593			675,930

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ATTACHMENT #2

City of Huntington Beach

Financial Policies

Adopted FY 2006/07

FINANCIAL REPORTING AND ACCOUNTING STANDARDS

- . The City's accounting system will be maintained in accordance with generally accepted accounting practices and the standards of the Government Accounting Standards Board and the Government Finance Officers Association.
- . The annual financial report will be prepared within six months of the close of the previous fiscal year. The City will use generally accepted accounting principles in preparing the annual financial statements and will attempt to qualify for the Government Finance Officers Association's Excellence in Financial Reporting Program.
- . The City will strive for an unqualified audit opinion. An unqualified opinion is rendered without reservation by the independent auditor that financial statements are fairly presented.
- . The City will contract for an annual audit by a qualified independent certified public accounting firm. The independent audit firm will be selected through a competitive process at least once every five years. The contract period will be for an initial period of three years, with two one-year options.

BUDGETING

- . The budget will be prepared consistent with the standards developed by the Government Finance Officers Association and California Society of Municipal Finance Officers. In addition, a summary version will be provided to the public in a user-friendly format.
- . The City will maintain a balanced operating budget for all funds with estimated revenues being equal to, or greater than, estimated expenditures, and with periodic City Council reviews and necessary adjustments to maintain balance.
- . On-going revenues will support on-going expenditures. Revenues from one-time or limited duration sources will not be used to balance the annual operating budget.
- . Support function appropriations will be placed in the department in which they are managed.

GENERAL FUND BALANCE

- . The General Fund reserve (designation) will be a minimum of seven percent of the General Fund budget. In addition, a second tier reserve will consist of the net accumulation of amounts that were in excess of the seven percent reserve (designation) and remained in the General Fund after application of the financial policy that immediately follows. This second tier reserve will be used to balance budget fluctuations.
- . Allocation of the audited General Fund balance in excess of the above reserves (designations) may be as follows:
 - . 25 percent for capital projects (transferred to the Capital Improvement Reserve)
 - . 25 percent for Infrastructure (transferred to the Infrastructure Fund)
 - . 50 percent to increase the 2nd tier reserve
- . All supplemental appropriations from the General Fund minimum reserve that cannot otherwise be funded during the current fiscal year operating budget must meet one of the three following criteria:
 - . It is an unanticipated emergency.
 - . It is required to implement a Memoranda of Understanding (MOU) or a mandate.
 - . It is a new expense that is offset by related revenues.



**City of Huntington Beach
Financial Policies
Adopted Budget – FY 2009/10**



FINANCIAL REPORTING AND ACCOUNTING STANDARDS

- ❑ The City's accounting system will be maintained in accordance with generally accepted accounting practices and the standards of the Government Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).
- ❑ The annual financial report will be prepared within six months of the close of the previous fiscal year. The City will use generally accepted accounting principles in preparing the annual financial statements and will attempt to qualify for the Government Finance Officers Association's Excellence in Financial Reporting Program.
- ❑ The City will strive for an unqualified audit opinion. An unqualified opinion is rendered without reservation by the independent auditor that financial statements are fairly presented.
- ❑ The City will contract for an annual audit by a qualified independent certified public accounting firm. The independent audit firm will be selected through a competitive process at least once every five years. The contract period will be for an initial period of three years, with two one-year options.

BUDGETING

- ❑ The budget will be prepared consistent with the standards developed by the Government Finance Officers Association and California Society of Municipal Finance Officers (CSMFO). In addition, a summary version will be provided to the public in a user-friendly format.
- ❑ The City will maintain a balanced operating budget for all funds with estimated revenues being equal to, or greater than, estimated expenditures, and with periodic City Council reviews and necessary adjustments to maintain balance.
- ❑ On-going revenues will support on-going expenditures. Revenues from one-time or limited duration sources will not be used to balance the annual operating budget.
- ❑ Support function appropriations will be placed in the department in which they are managed.

GENERAL FUND BALANCE

- ❑ There will be an established Economic Uncertainties Reserve commitment in the General Fund. The goal is to have an Economic Uncertainties Reserve commitment equal to the value of two months of the General Fund expenditure adopted budget amount.
- ❑ Once established, appropriations from the Economic Uncertainties Reserve commitment can only be made by formal City Council action. Generally, appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to:
 - An unplanned, major event such as a catastrophic disaster requiring expenditures over 5% of the General Fund adopted budget
 - Budgeted revenue taken by another government entity
 - Drop in projected/actual revenue of more than 5% of the General Fund adopted revenue budget
- ❑ Should the Economic Uncertainties Reserve commitment be used, and its level falls below the minimum amount of two months of General Fund expenditures adopted budget, the goal is to replenish the fund within three fiscal years.



**City of Huntington Beach
Financial Policies
Adopted Budget – FY 2009/10**



- Allocation of the audited General Fund unassigned fund balance will be done as follows if, and until, the Economic Uncertainties Reserve commitment is fully funded (i.e., two months of General Fund expenditures):
 - 50% to Economic Uncertainties Reserve commitment
 - 25% for Infrastructure Fund
 - 25% to Capital Improvement Reserve (CIR) commitment
- Once the Economic Uncertainties Reserve commitment attains full funding, unassigned fund balance will be divided as follows:
 - 25% for Infrastructure Fund
 - 25% to Capital Improvement Reserve (CIR) commitment
 - 50% to Equipment Replacement commitment
- Any unanticipated and unrestricted revenues received during the fiscal year will be added to the fund balance of the General Fund.

FUND BALANCE CLASSIFICATION

- The City's fund balance is made up of the following components:
 - Nonspendable fund balance typically includes inventories, prepaid items, and other items that, by definition cannot be appropriated.
 - The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
 - The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment.
 - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment.
 - Unassigned fund balance is the residual classification for the City's funds and includes all spendable amounts not contained in the other classifications.
- The City considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.
- The City's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

APPROPRIATION AUTHORITY

- The City Council is the appropriation authority for the City Budget. As required by state law, appropriations expire at the end of each fiscal year.